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November 30, 2010

Employer Code: 0235-062
Job Number: P09-034

Rocklin Academy
David Patterson, Executive Director
6532 Turnstone Way
Rocklin, CA 95765

Dear Mr. Patterson:

Enclosed is our final report on the results of the public agency review completed for the Rocklin Academy. Your agency's written response indicates agreement with the issues noted in the report. The written response is included as an appendix to the report. As part of our resolution process, we have referred the issues identified in the report to the appropriate divisions at CalPERS. Please work with these divisions to address the recommendations specified in our report. It was our pleasure to work with your agency and we appreciate the time and assistance of you and your staff during this review.

Sincerely,

Original Signed by Margaret Junker

Margaret Junker, CPA, CIA, CIDA
Chief, Office of Audit Services

Enclosure

cc: Finance Committee Members, CalPERS
Peter Mixon, General Counsel, CalPERS
Lori McGartland, Chief, ERSD, CalPERS
Mary Lynn Fisher, Chief, BNSD, CalPERS
Honorable Board Members, Rocklin Academy
Melissa Reese, CFO, Rocklin Academy
Cindy Davis, Accounting Technician, Placer County Office of Education

Rocklin Academy



Public Agency Review



Office of Audit Services

Employer Code: 0235-062
Job Number: P09-034

November 2010

ROCKLIN ACADEMY

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RESULTS IN BRIEF

We reviewed the Rocklin Academy's (Academy) enrolled individuals, member earnings, and required retirement documentation for employees included in our test sample. A detail of the exceptions is noted in the Risk and Mitigation Table. Specifically, the following exceptions were noted during the review:

- Special compensation was incorrectly reported.
- Retroactive salary adjustments were not properly reported.
- Non-reportable compensation was incorrectly reported.
- Payrates were not reported in accordance with a publicly available salary schedule.
- Payrates were incorrectly reported.

BACKGROUND

The California Public Employees' Retirement System (CalPERS) provides a variety of programs serving members employed by more than 2,500 local public agencies as well as state agencies and state universities. The agencies contract with CalPERS for retirement benefits, with CalPERS providing actuarial services necessary for the agencies to fund their benefit structure. In addition, CalPERS provides services which facilitate the retirement process.

CalPERS Employer Services Division (ERSD) manages contract coverage for public agencies and receives, processes, and posts payroll information. CalPERS Benefit Services Division (BNSD) provides services for eligible members who apply for service or disability retirement. BNSD sets up retirees' accounts, processes applications, calculates retirement allowances, prepares monthly retirement benefit payment rolls, and makes adjustments to retirement benefits. The Office of Employer and Member Health Services (EMHS), as part of the Health Benefits Branch (HBB), provides eligibility and enrollment services to the members and employers that participate in the CalPERS Health Benefits Program, including state agencies, public agencies, and school districts.

Retirement allowances are computed using three factors: years of service, age at retirement and final compensation. Final compensation is defined as the highest average annual compensation earnable by a member during the last one or three consecutive years of employment, unless the member elects a different period with a higher average. State and school members use the one-year period. Local public agency members' final compensation period is three years unless the agency contracts with CalPERS for a one-year period.

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The employers' knowledge of the laws relating to membership and payroll reporting facilitates the employer in providing CalPERS with appropriate employee information. Appropriately enrolling eligible employees and correctly reporting payroll information is necessary to accurately compute a member's retirement allowance.

The Rocklin Academy is a California non-profit public benefit corporation that was incorporated in May 2000 and was organized to manage, operate, guide, direct, and promote a California public charter school, which began serving students in August 2001. The Academy's Employee Handbook, the Education Code, and employment agreements outline all Academy employees' salaries and benefits and state the terms of employment agreed upon between the Academy and its employees.

The Placer County Schools, which includes the Academy, contracted with CalPERS, effective July 1, 1949, to provide participation in CalPERS for local miscellaneous employees. The Academy's certificated employees (i.e., school teachers) participate in the State Teachers' Retirement System.

Individual school districts within Placer County Schools input members' payroll into the Placer County School payroll system. The Placer County Office of Education (COE) reports the monthly payroll for the school districts through CalPERS' ACES. The individual school districts are responsible for making the necessary changes during the school year to the employee's position, assignment, salary rate, and the addition or deletion of employees to the payroll system.

The members reported on the payroll listing are grouped by unit codes. The unit code is a unique number assigned to the COE and each of the school districts that are reporting to CalPERS under the same employer code. The Placer County Schools, employer code 0235, is comprised of the County Office of Education and 17 school districts. We reviewed the COE and six school districts.

For the purpose of reporting the results of our review, we used Employer Code 0235 in our review reports and the corresponding unit codes for the school districts reporting under this employer code. Following are the unit codes of the COE and the school districts we reviewed:

Placer County Office of Education – Unit Code 050

Sierra Joint Community College District – Unit Code 042

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Rocklin Academy – Unit Code 062

Tahoe-Truckee Unified School District – Unit Code 021

Alta-Dutch Flat Union Elementary School District – Unit Code 002

Newcastle Elementary School District – Unit Code 012

Roseville Joint Union High School District – Unit Code 032

SCOPE

As part of the Board approved plan for fiscal year 2009/2010, we reviewed the Academy's payroll reporting and enrollment processes as these processes relate to the Placer County Schools retirement contract with CalPERS. The objective of this review was limited to the determination that the Academy complied with applicable sections of the California Government Code (Sections 20000 et seq.) and Title 2 of the California Code of Regulations and that prescribed reporting and enrollment procedures were followed. The on-site fieldwork for this review was conducted on November 30, 2009 through December 11, 2009.

The review period was limited to the examination of sampled records and processes from July 1, 2006 through June 30, 2009. To accomplish the review objectives, we performed the following:

- ✓ Reviewed the contract and subsequent amendments the Placer County Schools had with CalPERS, correspondence files maintained at CalPERS, and employment agreements the Academy had with its employees.
- ✓ Interviewed key staff members to obtain an understanding of the Academy's personnel and payroll procedures.
- ✓ Reviewed the payroll transactions and compared the Academy's payroll register with the data reported to CalPERS to determine whether the Academy correctly reported employees' compensation.
- ✓ Reviewed the Academy's payroll information reported to CalPERS for the sampled employees to determine whether employees' payrates were reported pursuant to public salary information.

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- ✓ Reviewed the Academy's process for reporting payroll to CalPERS to determine whether the payroll reporting elements were reported correctly.
- ✓ Reviewed reported payroll to determine whether the payment of contributions and the filing of payroll reports were submitted within the required timeframes.
- ✓ Reviewed the Academy's enrollment practices pertaining to temporary/part-time employees, retired annuitants, and independent contractors to determine whether the individuals met CalPERS membership requirements.
- ✓ Reviewed the Academy's classification of employees to determine whether the Academy reported employees in the appropriate coverage groups.
- ✓ Reviewed the Academy's calculation and reporting of unused sick leave balances for retiring members.

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RISK AND MITIGATION TABLE

In developing our opinions, we considered the following risks and mitigations. We also include our observations and recommendations.

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
1. The Academy may not accurately report compensation to CalPERS.	<p>We reviewed payroll records and compensation reported to CalPERS for a sample of eight classified employees, including 12-month and 11-month employees, over fiscal year 2008/09.</p> <p>The earnings reported to CalPERS were reconciled to the Academy's payroll records. The Academy accurately reported compensation to CalPERS in our sample, except for the following instances.</p> <p><u>Special Compensation was Incorrectly Reported</u></p> <p>Our testing revealed the Academy incorrectly reported items of special compensation to CalPERS. The Academy reported bonus payments of \$1,455.00 during each pay period from February through June 2009 for a sampled management employee. The performance bonus did not meet the definition of reportable compensation because it was not available to all similarly situated employees in the same group or class of employment.</p> <p>In addition, the Academy paid education incentive for</p>	<p>The Academy should not report special compensation that is not available to all similarly situated members of a group or class of employment. In addition, special compensation must be contained in a written labor policy or agreement available for public scrutiny or the compensation should not be reported.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>1. The Academy may not accurately report compensation to CalPERS. (continued)</p>	<p>another sampled employee in equal payments of \$62.50 each pay period and reported the incentive in a lump sum amount totaling \$750.00 in July 2008. Educational pay reported on behalf of the employee did not meet the definition of reportable compensation because it was not contained in a written labor agreement nor was it available to similarly situated employees in the same group or class.</p> <p>Government Code, § 20636.1(c)(2), states, in part, "Special compensation shall be limited to that which is received by a member pursuant to a labor policy or agreement or as otherwise required by state or federal law, to similarly situated members of a group or class of employment that is in addition to payrate."</p> <p>Government Code, § 20636.1 (e)(1), states, in part, "As used in this part, 'group or class of employment' means a number of employees considered together because they share similarities in job duties, work location, collective bargaining unit, or other logical work related grouping. Under no circumstances shall one employee be considered a group or class."</p> <p><u>Retroactive Salary Adjustments</u></p> <p>The Academy paid one employee \$5,000.00 in equal installments of \$1,666.67 in the April 2009, May 2009, and</p>	<p>The Academy should work with CalPERS ERSD to determine the impact of this incorrect reporting and what adjustments, if any, are needed.</p> <p>A confidential list identifying the employees mentioned in this section of the report has been sent to the Academy and CalPERS ERSD as an appendix to the draft report.</p> <p>The Academy should maintain appropriate supporting</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>1. The Academy may not accurately report compensation to CalPERS. (continued)</p>	<p>June 2009 pay periods. The \$5,000.00 was a salary adjustment retroactive to July 1, 2008. The employee received an additional salary adjustment of \$700.00 in the February 2009 pay period. However, the compensation was not reported to CalPERS. We requested documentation to verify whether the retroactive pay was authorized; however, the Academy was unable to provide sufficient documentation approving the salary increases.</p> <p>We also found that the Academy paid one employee additional compensation in two separate instances. One payment was in the amount of \$3,782.00, paid in two equal installments of \$1,891.00 in May and June 2009. The second payment was \$3,031.28, paid in June 2009. Academy staff explained both salary adjustments were retroactive to July 1, 2008. We requested documentation to confirm the retroactive pay was approved; however, the Academy was unable to provide sufficient documentation authorizing the salary increases.</p> <p>The Academy reported a salary adjustment in the amount of \$1,766.04 in the August 2009 pay period, retroactive to March 2009. However, the amount, payrate and service period of the adjustment did not correspond to the adjustments noted above; therefore, we were unable to</p>	<p>documentation to ensure compensation is properly paid and reported to CalPERS.</p> <p>The Academy should work with CalPERS ERSD to assess the impact of this incorrect reporting and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the employee mentioned in this section of the report has been sent to the Academy and CalPERS ERSD as an appendix.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>1. The Academy may not accurately report compensation to CalPERS. (continued)</p>	<p>determine whether the adjustments paid in June 2009 had been reported.</p> <p>We also noted that while processing the above mentioned payment of \$3,031.28 in the June 2009 pay period, the Academy overpaid the employee by \$242.18 and incorrectly adjusted the overpayment by reducing the employee's regular earnings. The Academy should have reported earnings of \$6,000.00, but instead reported earnings of \$5,757.82.</p> <p>Salary adjustments are reportable compensation to CalPERS; however, the Academy did not provide sufficient documentation to confirm the salary increase was authorized or to verify the accuracy of the amounts paid. As a result, we were unable to determine whether this compensation was reportable to CalPERS.</p> <p>Government Code, § 20222.5(a), states, "The board may, during the course of an audit, require each state agency, school employer, including each school district represented by a school employer, and contracting agency, to provide information or make available for examination or copying at a specified time and place, or both, books, papers, any data, or records, including, but not limited to, personnel and payroll records, as deemed</p>	

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>1. The Academy may not accurately report compensation to CalPERS. (continued)</p>	<p>necessary by the board to determine the correctness of retirement benefits, reportable compensation, enrollment in, and reinstatement to this system."</p> <p>Government Code, § 20636.1(b)(1), states, in part, "Payrate means the normal monthly rate of pay or base pay of the member paid in cash to similarly situated members of the same group of class of employment for services rendered on a full-time basis during normal working hours...."</p> <p>Government Code, § 20630, states, in pertinent part, "As used in this part, 'compensation' means the remuneration paid out of funds controlled by the employer in payment of the member's services....When compensation is reported to the board, the employer shall identify the pay period in which the compensation was earned regardless of when reported or paid."</p> <p>CalPERS Procedure Manual, pg. 110, states, in part, "A single contribution code 05 or 15 may be used to report a retroactive salary adjustment covering previous service periods. The service period should reflect the earliest service period involved in the adjustment. The transaction should have the member's new payrate and the total additional earnings and contributions for the period. When</p>	

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>1. The Academy may not accurately report compensation to CalPERS. (continued)</p>	<p>more than one pay rate is involved in the retroactive adjustment, report a single entry for each new pay rate.”</p> <p><u>Non-Reportable Compensation was Reported as Regular Earnings</u></p> <p>The Academy incorrectly reported compensation for overtime and holiday pay to CalPERS. Specifically:</p> <ul style="list-style-type: none"> • Overtime was incorrectly reported on behalf of one employee in 6 of the 12 sampled pay periods. • Holiday pay was erroneously reported in for an employee that is not required to work on holidays. <p>Overtime is not reportable compensation and holiday pay can only be reported for members who meet the criteria for holiday pay as outlined in California Code of Regulations § 571(a) and § 571(b).</p> <p>Government Code, § 20635.1, states, in pertinent part, "When the compensation of a school member is a factor in any computation to be made under this part, there shall be excluded from those computations any compensation based on overtime put in by a member whose service retirement allowance is a fixed percentage of final compensation for each year of credited service. For</p>	<p>The Academy should immediately discontinue reporting non-reportable compensation to CalPERS.</p> <p>The Academy should work with CalPERS ERSD to assess the impact of this incorrect reporting and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the employees mentioned in this section of the report has been sent to the Academy and CalPERS ERSD as an appendix to our draft report.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>1. The Academy may not accurately report compensation to CalPERS. (continued)</p>	<p>purposes of this part, overtime for school members is the aggregate service performed by an employee as a member for all school employers and in all categories of employment in excess of 40 hours of work per week, and for which monetary compensation is paid...."</p> <p>Government Code, § 20636.1(b)(1), states, in part, "Payrate means the normal monthly rate of pay or base pay of the member paid in cash to similarly situated members of the same group or class of employment for services rendered on a full-time basis during normal working hours...."</p> <p>California Code of Regulations, § 571(a), exclusively identifies and defines special compensation items. This regulation does not include overtime pay or holiday pay for employees that are not regularly scheduled to work on holidays as reportable items of special compensation.</p> <p>CalPERS Procedure Manual, page 131, states, in pertinent part, "Government Code, Section 20636.1 requires all services rendered up to 40 hours per week be reported for non-certificated school members. Government Code, Section 20635.1 indicates that overtime compensation is excluded from reporting. Schools commonly have employees who have a regular</p>	

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>1. The Academy may not accurately report compensation to CalPERS. (continued)</p>	<p>work week that is less than 40 hours per week, these employees are paid at a straight-time, hourly rate for those hours. For any services rendered in excess of their regular work week, they receive an overtime rate of pay. In order to comply with Government Code, Section 20636.1, schools must report this employee to CalPERS for the hours worked over their normal work week, up to 40 hours per week. Even though the member is being paid an overtime rate, any hours worked between the regular work week and 40 hours per week are required to be reported to CalPERS at the straight time hourly rate that corresponds with the salary schedule for that classification. All earnings for services rendered in excess of 40 hours per week should not be reported to CalPERS. Overtime rates should not be reported to CalPERS for non-certified school employees in accordance with Government Code Section 20635.1...."</p>	
<p>2. The Academy may not report payrates in accordance with publicly available salary schedules.</p>	<p>We reviewed payrates reported to CalPERS and reconciled the payrates to the Academy's public salary information in the June 2009 service period to determine whether payrates for the eight sampled employees were properly paid, authorized and reported to CalPERS.</p> <p>The payrates reported for six sampled employees were authorized in salary schedules; however, the payrates reported for two other sampled employees were not in</p>	<p>Payrates should be reported in accordance with publicly available salary schedules.</p> <p>The Academy should work with CalPERS ERSD to determine the impact of this incorrect reporting and determine what adjustments, if any, are needed.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>2. The Academy may not report payrates in accordance with publicly available salary schedules. (continued)</p>	<p>accordance with the Academy's salary schedule.</p> <ul style="list-style-type: none"> • The Academy over reported a payrate of \$6,381.50 for one employee in the May and June 2009 pay periods. The payrate listed in the salary schedule was \$72,000.00 annually or \$6,000.00 per month. • In addition, the Academy over reported a payrate of \$4,840.63 for another employee from February through June 2009. The payrate listed in the salary schedule was \$42,000.00 annually or \$3,500.00 per month. <p>Government Code, § 20636.1(b)(1), states "Payrate means the normal monthly rate of pay or base pay of the member paid in cash to similarly situated members of the same group or class of employment for services rendered on a full-time basis during normal working hours, pursuant to a publicly available salary schedule."</p> <p>Government Code, § 20636.1(d), states, "Notwithstanding any other provision of law, payrate and special compensation schedules, ordinances, or similar documents shall be public records available for public scrutiny."</p>	<p>A confidential list identifying the employees mentioned in this section of the report has been sent to the Academy and CalPERS ERSD as an appendix to our draft report.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>3. The Academy may not accurately report payroll information to CalPERS.</p>	<p>We reviewed the payroll information reported to CalPERS for fiscal year 2008/2009. Our sample testing revealed that the Academy correctly reported the payroll information to CalPERS except for the following instances:</p> <p><u>Incorrect Payrate Reported</u></p> <p>During our testing we found that the Academy reported incorrect payrates for two sampled employees. The following exceptions were noted:</p> <ul style="list-style-type: none"> • The Academy paid a substitute teacher \$100.00 per day if the employee worked more than four hours in a day and \$50.00 per day if they worked four hours or less in a day. The Academy reported an incorrect monthly payrate of \$1,591.67. • The Academy paid a teacher's aide \$8.62 per hour. The Academy incorrectly reported a full-time monthly payrate of \$1,218.29. <p>Government Code, § 20636.1(b)(1), defines payrate as "The normal monthly rate of pay or base pay of the member for services rendered on a full-time basis during normal working hours."</p>	<p>The Academy should always report employees' normal base rate of pay.</p> <p>The Academy should work with CalPERS ERSD to assess the impact of this incorrect reporting and to determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the employees mentioned in this report has been sent to the Academy and CalPERS ERSD as an appendix.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
4. The Academy may not enroll all eligible employees into CalPERS membership. (continued)	<p>have prior CalPERS membership. The Academy correctly excluded the temporary/part time employees from membership.</p> <p><u>Independent Contractor</u></p> <p>We reviewed the Academy's IRS 1099 Miscellaneous Income forms for calendar years 2008 and 2009 in order to identify employees that may be misclassified as independent contractors. The selected individuals were properly classified as independent contractors and correctly excluded from CalPERS membership.</p>	None.
5. The Academy may unlawfully employ retired annuitants.	The Academy did not employ retired annuitants during the period under review.	None.
6. The Academy may not appropriately report members under the proper coverage group code.	Our sample testing revealed that the Academy reported members under the appropriate coverage group code.	None.
7. The Academy may not accurately report unused sick leave balances for retiring CalPERS members.	The Academy did not have any employees retire during the review period.	None.

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CONCLUSION

We limited this review to the areas specified in the scope section of this report. We limited our test of transactions to samples of the Academy's payroll reports and personnel records. The sample testing procedures provide reasonable, but not absolute, assurance that these transactions complied with the California Government Code, except as noted above.

Respectfully submitted,

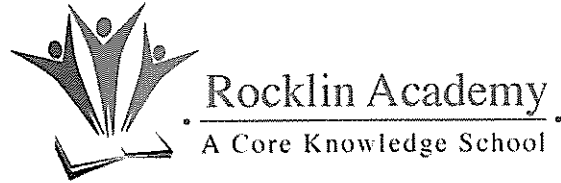
Original Signed by Margaret Junker
Margaret Junker, CPA, CIA, CIDA
Chief, Office of Audit Services

Date: November 2010

Staff: Michael Dutil, CIA, Senior Manager
Diana Thomas, CIDA, Manager
Alan Feblowitz
Chris Wall

APPENDIX

ACADEMY'S WRITTEN RESPONSE



November 3, 2010

VIA EMAIL AND US POST

Chris Wall
CalPERS
Office of Audit Services
P.O. Box 942701
Sacramento, CA 94229-7836

RE: Rocklin Academy - CalPERS Review Response

Dear Mr. Wall:

Rocklin Academy appreciates the opportunity to address the recommendations made by CalPERS in this draft review of Rocklin Academy. We always appreciate the identification of opportunities to improve any aspect of our operations.

Rocklin Academy is a public charter school, organized as a 501(c)(3). Rocklin Academy has been in operation since 2001 and operates three high performing charter public schools; Rocklin Academy (Turnstone), Rocklin Academy Meyers Street and Western Sierra Collegiate Academy. The organization offers retirement to both classified and certificated employees, through CalPERS and CalSTRS respectively. Payroll and CalPERS contributions are processed through the Placer County Office of Education, which processes payroll for all schools and school districts located in Placer County.

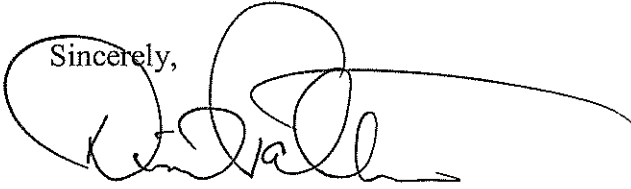
CalPERS staff reviewed the procedures in place during December 2009. This was the first review of the procedures in place at Rocklin Academy.

During the course of this review, CalPERS staff reviewed classified salary records from the fiscal year 2008/09. The purpose of this review was to ensure that all earnings subject to the PERS withholding were being done in accordance with CalPERS withholding procedures. A sample of five classified employee records was chosen, ranging from the Director to hourly office employees.

The report has identified three areas where recommendations for change were made; reporting of compensation, publicly available salary schedules and accuracy of payroll information reported to CalPERS. Overall Rocklin Academy acknowledges the need to address the situations cited and accepts the recommendations. Rocklin Academy has already taken steps to address the issues raised and is working to implement the additional changes

needed to ensure these errors do not occur in the future. As part of this work, Rocklin Academy has worked closely with the business services division of the Placer County Office of Education.

Sincerely,

A handwritten signature in black ink, appearing to read 'David Patterson', with a long horizontal flourish extending to the right.

David Patterson, Ed.D.
Superintendent/Executive Director

cc: Melissa Reese, CFO, Rocklin Academy